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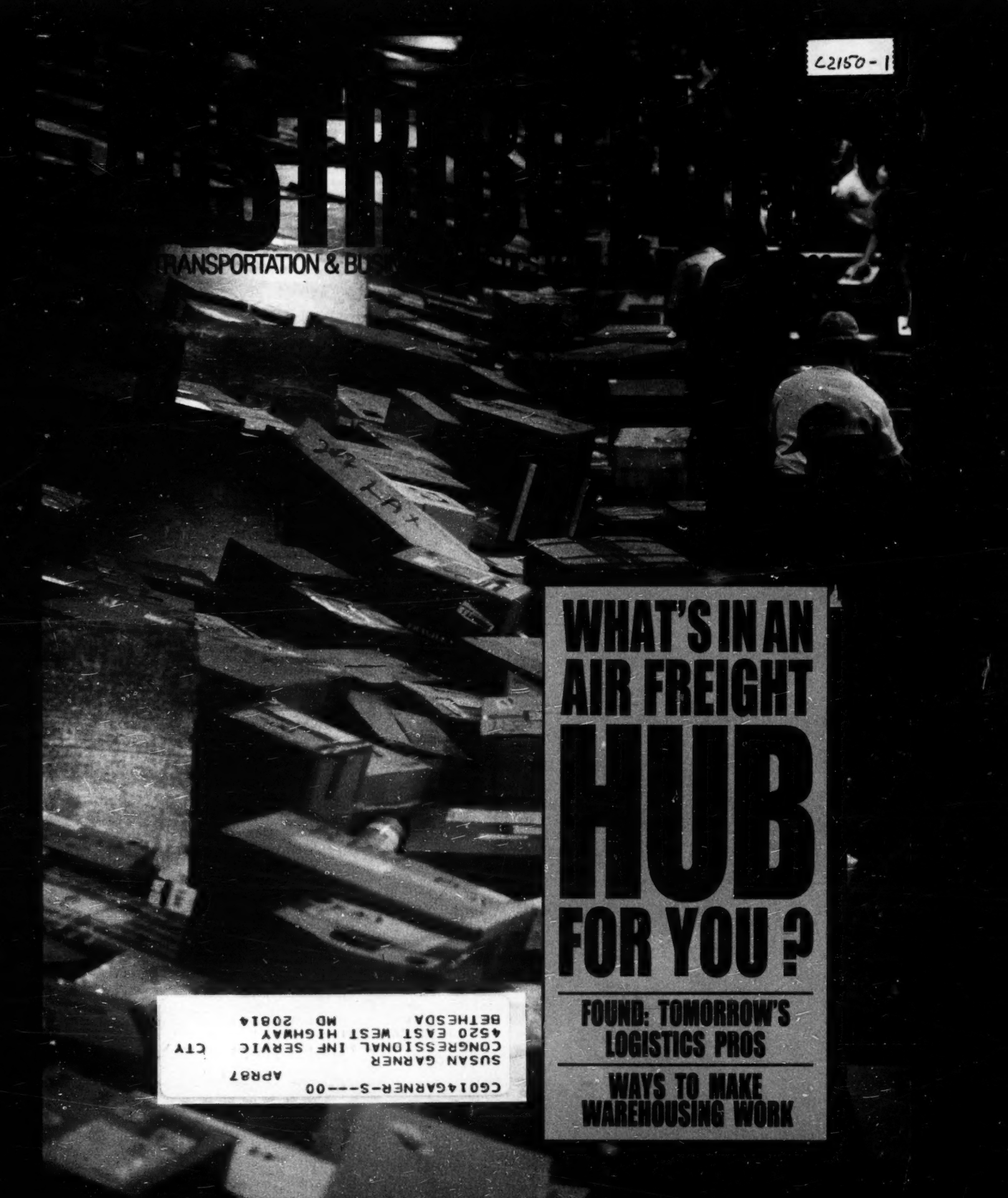

WHAT'S IN AN AIR FREIGHT HUB FOR YOU?

FOUND: TOMORROW'S LOGISTICS PROS

WAYS TO MAKE WAREHOUSING WORK

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CHILTON'S

DISTRIBUTION

MAY 1986

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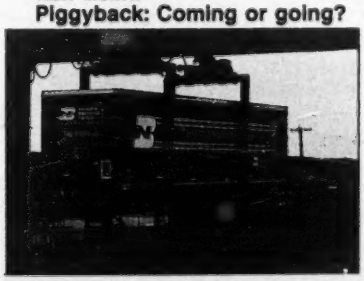

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Our March question asked what you thought transportation/distribution's role in site locations should be. *Not surprisingly, many of you said that transportation departments should be contacted early on in the site location decision-making process. You asked, 'What good is an inexpensive site if it doubles your transportation costs?' It was good to see that many respondents indicated they have a 'great deal' of input in site location decisions. This is another area where corporations should take advantage of the know-how possessed by their transportation departments. Here's what readers had to say:*

"We should be given the same consideration as sales, marketing and manufacturing. Once a location is selected, transportation/distribution has to make it go."—**Manny Miyar, general manager, Kuehne & Nagel Distribution Services, Elk Grove, Ill.**

"Primary, in that availability of carriers and traffic lanes will severely affect rate levels and service. Management cannot make these decisions without solid input from distribution."—**James J. Paule, traffic manager, Spangler Candy Co., Bryan, Ohio.**

"To provide cost comparisons for both inbound and outbound shipments from each alternative site location."—**Thomas R. Hart, director, worldwide traffic, Burroughs Corp., Wayne, Mich.**

"Our recommendations, pro or con, should be given serious consideration. It is one thing to find an inexpensive site to purchase; another to pay premium transportation costs because of the location."—**John Satterfield, distribution supervisor, Kingston-Warren Corp., Newfields, NH.**

"Logistics, service factors and transportation costs are functions too important to ignore. A prudent decision cannot be rendered unless these three factors are clear to all concerned."—**James J. O'Donnell, manager, transportation, Amchem Products, Inc., Ambler, PA.**

"Our role should be extensive, since the proper location can save thousands of dollars per month in shipping costs."—**Robert E. Brownell, traffic manager, The Korex Co., Wixom, Mi.**

"(Sites should be) evaluated on the basis of individual corporate requirements to expedite receipts and shipments in targeted markets."—**Raul A. Quadros, director, internat'l transportation, Pier 1 Imports, Ft. Worth, TX.**

"With the high cost of transportation affecting the bottom line, the clos-

continued

QUESTION OF THE MONTH

WHAT PRICE PEACE OF MIND?

There is an insurance crisis brewing in nearly all segments of American industry today. Premiums for almost every kind of insurance are going through the roof. Companies are increasingly looking toward self-insurance as an alternative.

It is no secret that this crisis has perhaps hit the transportation industry the hardest. Witness the number of carriers that have closed their doors in the past 12 to 18 months.

We'd like to find out how the insurance crunch has affected shippers, specifically in one area—security. Cargo/inventory theft represents a significant loss for some companies. Is your company one of them? How does your company insure against theft loss? Do you purchase insurance or insure yourself? What is the difference in cost?

Who in your company is responsible for cargo security? The transportation department? Security? Operations? Administration? What is being done to fight theft problems? Does your company plan to upgrade its security systems or purchase a new system? What type? Let us know by answering the questions on the card below.

DIALOGUE

May 1986

•My company has experienced (circle one):
an increase/a decrease/no change
in cargo and inventory-related theft in the past two years.

•Last year, cargo/inventory theft's cost to my company's bottom line was: $ _____

•The primary responsibility for cargo/inventory security within my company lies with (check one only):
_____operations/production dept.
_____transportation/distribution dept.
_____administration/personnel
_____other (describe):_____

•Freight/inventory theft within my company most often takes this form (check one only):
_____stealing from shop floors and loading/receiving docks at manufacturing sites
_____stealing from warehouses/distribution centers
_____in-transit theft
_____other (describe):_____

•My company insures against cargo theft with:
_____a corporate umbrella policy
_____a separate policy for cargo theft
_____self-insurance against cargo theft

The greatest contribution a transportation/distribution manager can make to help reduce cargo/inventory theft is:

_____

_____

_____

_____

_____

NAME (print) _____ TITLE _____

COMPANY _____ PHONE _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that have caught the ears of *DISTRIBUTION* editors:)

"Unlike CSX and BN, we'd just be happy to stay a railroad, let alone be a multi-modal company."**—Gordon H. Kuhn, assistant vp, Conrail.**

•

"It is apparent that deregulation of our nation's railroads has worked better than anyone dared hope. Shippers have good rail service, an adequate car supply and rate stability. Congress set a whole new course of direction with the implementation of the Staggers Act. Passage of the CURE bill will stifle market-based negotiations and send all the wrong signals to railroad investors."**—William Shaw, Committee Against Revising Staggers.**

•

"Although our port facilities are among the finest in the world they must be improved to meet the requirements of the future. Recent regulatory and technological changes—particularly the introduction of the new and much larger containerships—have caused us to look more closely at our once revolutionary port facilities. What we find is that many of them require major renovation, modernization and expansion."**—James J. Kirk, director, port dept., Port Authority of New York and New Jersey.**

er to major shipping lanes the easier it is to negotiate a better rate."**—R. Siegfried, traffic manager, Eagle Gant Corp., Allentown, PA.**

"To study all the costs involved, service capabilities and standards, established carriers, and proximity to customers in a given region."**—Rich De Santis, traffic manager, Lumex, Inc., Bay Shore, NY.**

"Transportation's role should be great. After all, we must get the raw material to the plant and the finished product to the customer at the lowest possible cost—and always on time."**—Howard Whitaker, traffic manager, Georgia Pacific Corp., Palatka, Fla.**

SETTING YOUR SITES

Company has opened a new facility, or relocated an existing one within past two years	89%
Company has not opened a new facility or relocated an existing one within two years	11%
The major reasons for selecting the new location were:	
proximity to customers	73%
local transportation network	47%
cost of labor	27%
tax advantages	27%
proximity to suppliers	13%
Amount of input transportation/distribution manager has in site location decisions:	
a great deal	37%
some	47%
very little	16%
Which department has the most influence in site location decisions?	
executive	53%
transportation/distribution	21%
marketing	21%
finance	16%
production	5%

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SECOND QUARTER

FORECAST

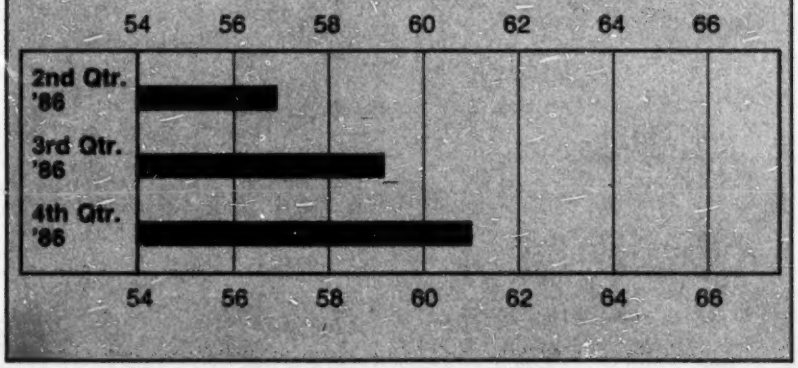
The outlook for the economy in the upcoming months is more than most economists dared dream of in months past

By Richard Lancioni, Ph.D., Contributing Editor

GENERAL ECONOMIC INDICATORS 1986 FORECAST

	2nd QTR.	3rd QTR.	4th QTR.
Real GNP (billions)	$4,183.6	$4,256.6	$4,322.3
Retail Car Sales (millions of units, annual rate)	10.5	10.8	10.9
Housing Starts (1000s of units, annual rate)	1.85	1.96	2.01
Prime Rate (%)	9.1	9.0	8.7
Personal Income (billions)	$3,455.0	$3,507.6	$3,558.8
Inflation Rate (%)	2.5	3.3	3.6
Unemployment Rate (%)	6.9	6.8	6.7
Net Exports (billions of $) annual rate)	(86.2)	(84.9)	(80.2)
Factory Utilization (%)	79.4	79.6	80.7

PURCHASING MANAGERS COMPOSITE INDEX 1986 FORECAST



Grow, grow, grow! These seem to be the words of most economists as they look at 1986. Forecasters have revised their estimates for the year. The stock market recently broke through the 1800 level to reach new highs and inflation seems to be a non-issue in the economic scheme of things. GNP is expected to reach $4,183.6 billion in the second quarter and grow at a rate of more than four percent through the third and fourth quarters. Housing starts are expected to reach all-time highs with the introduction of single-digit mortgage rates; and the prime rate is expected to drop to the 8.7 percent level by the fourth quarter. Unemployment is also declining and should dip below 6.7 percent by the end of 1986. Factory utilization will remain high, averaging approximately 80 percent for the balance of the year.

The real negative in the economic picture continues to be the balance of trade figures, with net exports averaging a negative $80 billion for all of 1986. This should improve somewhat as the dollar declines further. Inflation should remain constant or decline over time as the price of oil continues to fall.

Distribution Index

The distribution sector of the economy will remain strong during the second quarter, following trends in the overall economy. Truck shipments will increase and reach the 148.1 level in the third quarter, while rail movements will also rise to reach the 129.9 level in the fourth quarter. Air freight should expand rapidly and reach the 138.6 level at the end of the year. Water ship-

continued

SECOND QUARTER

DISTRIBUTION INDEX—1986 FORECAST

	2nd QTR.	3rd QTR	4th QTR.
Truck Shipments	146.9	148.1	149.9
Rail Shipments	126.9	128.1	129.9
Air Shipments	135.5	137.7	138.6
Water Shipments	118.3	120.2	121.7
Warehouse Space Utilization	132.0	133.5	134.6
Inventory Valuation	112.4	111.1	110.8

DIESEL FUEL PRICES—1986 FORECAST (cents per gallon)

	2nd QTR.	3rd QTR.	4th QTR.
Full-Serve	118.9	109.1	90.1
Self-Serve	109.7	95.1	88.0

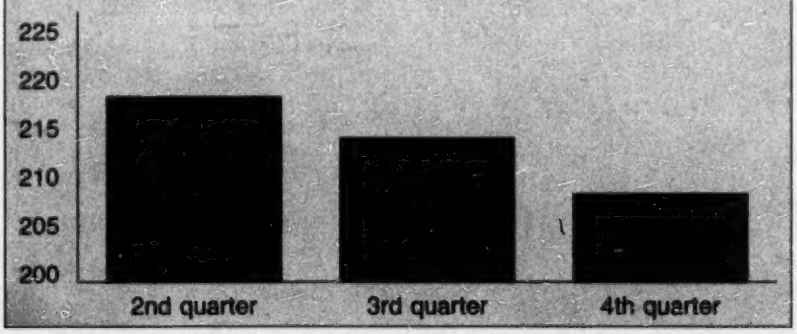
Source: Household Goods Carriers Bureau. Figures are estimates calculated by author.

TRANSPORTATION COST INDEXES (1977 = 100.0)

	2nd QTR.	3rd QTR.	4th QTR.
Rail	184.9	185.1	185.8
Truck	173.8	172.0	172.0
Barge	187.5	186.6	185.9

Source: Data Resources Inc.

FREIGHT RATE INDEX—1986



ments, which typically advance at a slower rate than the rest of the transport sector, should increase to 121.7.

Inventory stocks should begin to be rebuilt in the second quarter—reflected in a rise in the warehouse utilization rate to the 133.5 level by the end of the third quarter. The inflation rate, which will moderate to the three percent level during the third quarter, is reflected in the drop in inventory valuation to the 111.1 level during the same period. As one distribution manager says, "The decline my company has experienced in its pricing structure during the past three months will continue for the rest of 1986."

Diesel Fuel Prices and Transportation Costs

The balance of 1986 will provide the transportation industry with one of the steepest declines in oil and gasoline prices since the late 1960s. Diesel fuel prices will fall below a dollar per gallon by the end of the second quarter, and reach the $.60 to $.80 range by the third quarter. This will result in lower transportation costs for all modes, including rail, truck, and barge. Transportation costs could decline by as much as 15 percent by the end of 1986.

Purchasing Managers Composite Index

Confidence in the economy should continue with a surge in orders for capital goods, accessory equipment, raw materials, and component parts. Purchasing managers should remain confident and increase their orders through the second quarter. If inflation and interest rates continue to decline, orders for new plants and new equipment should grow through the balance of the year.

As the second quarter ends, the economic growth in the second half of the year should remain steady and inflation-free. As one distribution manager says, "Confidence is the name of the game. And right now my company's management is very confident about the future." □

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